March, 1985

To His Honour,
The Honourable Frederick W. Johnson
Lieutenant Governor of the
Province of Saskatchewan

Sir:

Letter of Transmittal

I have the honour to submit the Annual Report of the Potash Corporation of Saskatchewan for the year ended December 31, 1984, including the financial statements in the form required by the Treasury Board and duly certified in accordance with The Potash Corporation of Saskatchewan Act.

I have the honour to be, sir,
Your obedient servant

Paul Schoenhals

Paul Schoenhals
Minister-in-Charge of the
Potash Corporation of Saskatchewan

Chairman's Message

If 1983 was a year of hope deferred for PCS, 1984 has been a year of recognition that the changes experienced in the industry are here to stay and the industry is faced with a different market in which the only consistent pattern is change itself.

We are all pleased that the Corporation returned to profitability in 1984 due to better market conditions, primarily offshore and to the improved operations of our plants but, above all, to the efforts of our employees.

The dependency of PCS on the export market is often overlooked. PCS Sales sells approximately 50% to customers in the U.S., 45% offshore and only 5% in Canada. In fact, the whole of Canada's requirements for potash could be supplied by half the production of our mine at Cory. To obtain a better perspective of the vital offshore market, in 1984 I visited customers in Japan, China, and Malaysia. During the course of this visit I discovered that the product supplied by Saskatchewan is highly regarded.

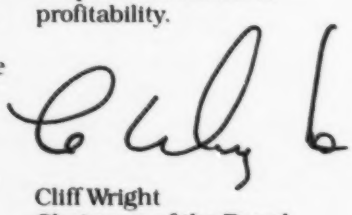
It is essential that PCS Sales, as a shareholder of the offshore marketing company, Canpotex Ltd., encourage the further growth of the Chinese and other markets. In this respect, there have been two recent developments. Firstly, the Saskatchewan Government is proposing to provide tax incentives for market research and development and, secondly, in 1985, we will be pleased to welcome the Canpotex head office to Saskatoon.

The Board of Directors met six times in 1984, including one meeting at PCS Mining, Lanigan Division, to review the activities of the Corporation and to provide general direction and guidance. We reviewed and approved the corporate strategy of PCS and its operating subsidiaries for the forthcoming years. We also examined carefully the purchasing policies of the Corporation and were pleased to learn the extent to which PCS and its subsidiaries have been able to use local industry and suppliers. The Executive Committee of the Board met with representatives of suppliers to the Corporation and was able to explain the comprehensive procedures used in our bidding practices.

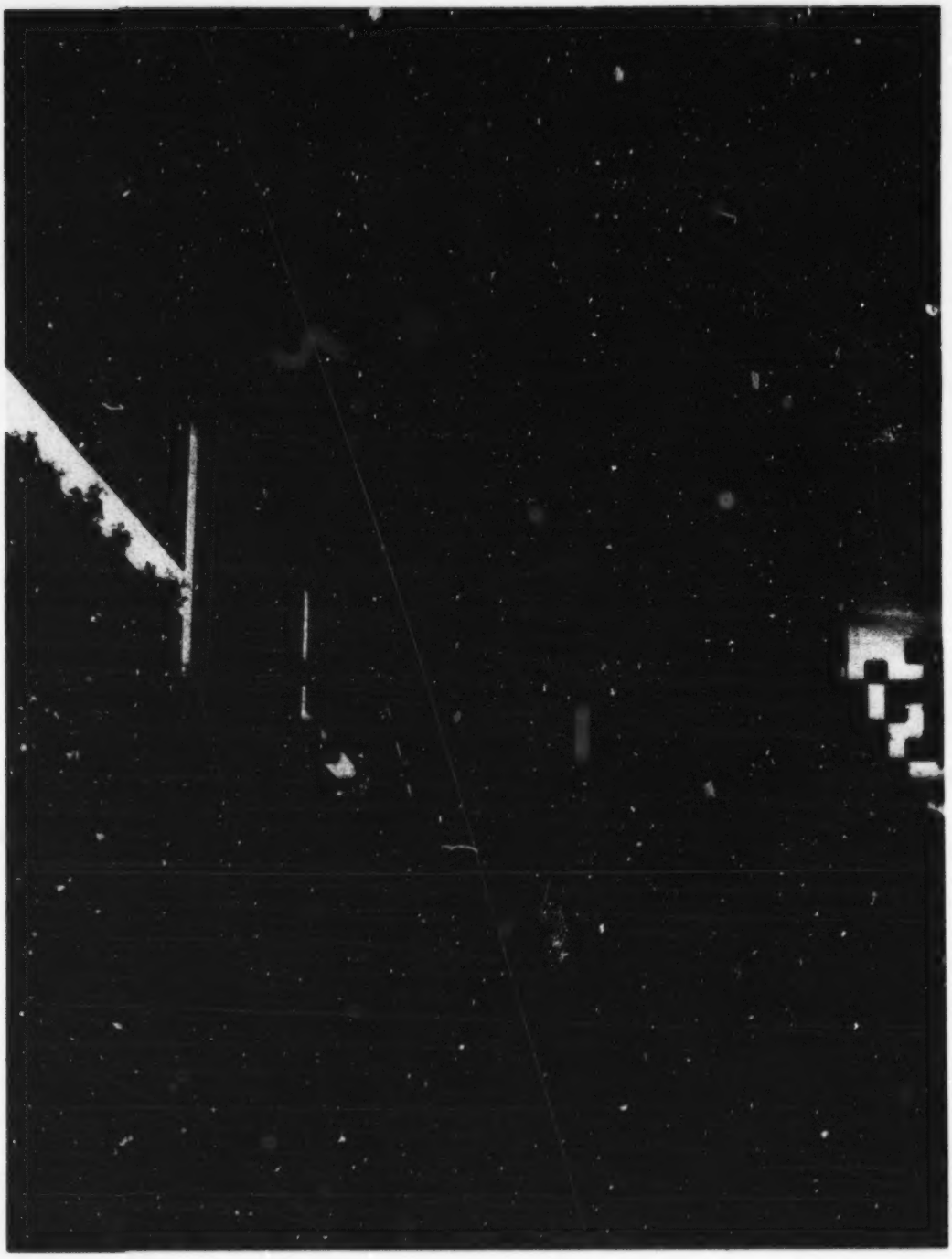
I would like to comment on changes that occurred within the Board during the year. Mrs. Barb Marcotte resigned and, on behalf of the Board, I would like to thank her for her contribution over the past two years. We are pleased to welcome to the Board Mr. Peter Golf of Saskatoon. We appreciate his extensive business experience. Shortly after the end of 1984, there was a realignment of Ministerial responsibility in the Government of Saskatchewan. As a result the Honourable Bob Andrew relinquished his position as Vice Chairman. We are grateful for his counsel over the past year. The new Vice Chairman of the Board is the Honourable Paul Schoenhals, Minister of Energy and Mines, and we look forward to working with him.

Important as decisions of the Board and senior management may be, all the material and financial assets would remain forever unproductive without the essential spark of life which can only be provided by the human element and it has been clearly demonstrated that we have a wealth of experience, knowledge and dedication in our employees. The future will look even better through our concentrated effort.

Once again, I would like to thank all employees for their patience and dedication in helping the Corporation return to profitability.



Cliff Wright
Chairman of the Board



The Head Office building of PCS, PCS Mining and PCS Sales in Saskatoon. The companies will be relocating offices in Saskatoon during the summer of 1985.

President's Message

In 1984, PCS achieved a net income of $25.4 million compared with a loss of $18 million in 1983. Although this represents a turnaround of $43 million, a return on invested equity of only 4% is still very unsatisfactory. In 1985 every effort must be made to increase sales volumes, reduce costs and improve profit margins.

While the economic climate in 1984 was better than that of 1983 the recovery did not fully extend to the mining and agricultural sectors. In fact, in the last quarter of 1984, the Corporation experienced a loss due primarily to weakening potash prices.

The closing weeks of the year were clouded by the problems associated with a major brine inflow at the Rocanville mine. While the inflow was a major threat to the mine, the spirit and dedication demonstrated by the Rocanville employees and other personnel assigned to tackling this challenge must be noted as a high point of the year.

In the North American market sales volumes were similar to those of 1983. The wet spring and fall were the main reasons for sales remaining below expectations. In the offshore market the situation was much improved over 1983. In spite of strong competition from producers in Western Europe, East Germany, the Soviet Union, Jordan and Israel, offshore sales attained record levels.

The price increases actually achieved in 1984 were in part due to the strength of the U.S. dollar against the Canadian dollar. Potash is sold for U.S. dollars which gives an immediate gain to Canadian producers but an even greater gain to producers whose currencies have declined even more against the U.S. dollar. In fact prices overall are only slightly higher than in 1979. It should be borne in mind that since 1979 the Consumer Price Index in Saskatoon has increased by 57% resulting in cost increases which are felt in all areas of the Corporation's operations.

Statistics available indicate that world-wide potash production has increased approximately 10 percent in 1984. About 60% of the new output came from North America, primarily from Canada. This represents a production increase of over 30% in Canada or 26% in North America. It was generally reported that in 1984 producers were expecting a strong market

PCS Sales customers tour underground operations at PCS Mining Cory Division.

in North America, as well as offshore. Failure of the North American demand to live up to expectations has resulted in a significant build-up of inventories which in turn frustrated the price recovery we had anticipated in North America.

Production by PCS Mining set an all time record of 4.5 million tonnes. This was achieved in spite of the Cory and Allan divisions running at approximately 75% of capacity. Product quality continues to receive our closest attention. In a tough market place customers are especially demanding. PCS Mining continues to produce a quality product. Customer reaction indicates that the attention given to quality has paid off.

I am pleased to report that in spite of increasing cost pressures, our unit cost of producing a tonne of potash dropped 6% in 1984 compared with 1983. This significant drop is due in part to the larger volume of production in 1984 and in part to higher productivity throughout the mining operations. The cost reduction program mentioned in the 1983 annual report is expected to continue to produce additional savings.

The operating divisions have attained a very satisfactory level of industrial safety in their operations and I am particularly pleased with these results. PCS Mining continues to assign high priority to environmental protection: the Rocanville Division Dry Stacking project is a good example of the achievements in this area.

Construction work at the 2 million tonne expansion at Lanigan continued on schedule and below budget. Spending in 1984 was $46.2 million of which 53% was sourced in Saskatchewan. Production is scheduled for the first half of 1986. The new loadout facility at the expanded plant is now operational.

At Cory the construction of the 30,000 tonne per annum sulphate of potash demonstration plant continues on schedule with production to commence in May 1985. Plans are under way for the construction of a commercial scale plant with an annual capacity of 300,000 tonnes.

The Corporation has maintained its high level of commitment to Research and Development with a target expenditure of 1.5% of gross sales on R & D projects. While initially the focus was directed at research into mining and processing methods, more attention has been devoted recently to agronomic development and new product research to ensure new and improved products are made available to consumers in the most effective way.

The financial results of the Corporation in the latter half of the year did not meet expectations. This was particularly true of the last quarter due to low sales volumes and prices in the United States market. The net income for the year was $25.4 million after payment of provincial mining taxes of $17.7 million. This represents a tax rate of 41%. Cash generated from operations amounted to $35 million which is considerably lower than in 1983 due to increasing investment in product inventories and accounts receivable. The net cash requirements in 1984 totalled $82 million. These were met by funds generated from the sale and long term leaseback of mining equipment at advantageous rates. The balance sheet of the Corporation shows that the debt to equity ratio is now seriously out of line with the ability to generate cash. This situation must be corrected as soon as possible in order not to prejudice future development opportunities.

While the net income benefited from the weakness of the Canadian dollar during 1984, the gain was largely offset by losses on long term foreign exchange contracts entered into four and five years ago.

At the beginning of 1984, the Corporation entered into a long term lease with Princeton Developments

Ltd., effective May 1985, for office accommodation in Saskatoon. This lease is at a fixed rate for 20 years and gives the Corporation the option to buy the property at the end of the lease term. More efficient space utilization and reduced occupancy costs will result in significant savings to the Corporation in the future.

It is our objective in 1985 to increase our profitability in all possible ways, including reduction of overhead and more efficient use of all of the Corporation's assets. We require the continuing cooperation of all employees in realizing these objectives; the same cooperation that made possible the improvements realized in 1984. It is very easy to lose sight of the fact that it is our employees, all of them, that make our operations run well. Obviously, on the basis of 1984 operating results, our employees were doing things right and we are truly appreciative of this effort and contribution. I also thank our Board of Directors for the guidance they have provided, our very able group of suppliers, and naturally, the most important people of all — our customers. We are dedicated to making certain that we continue to earn their business and ensuring that they remain our customers.

Steve W. Harapiak
President & Chief Executive Officer

In 1984, the five operating divisions of PCS Mining produced a record 4.5 million tonnes of potassium chloride.

PCS Mining

In 1984, the five operating divisions produced a record 4.5 million tonnes of potassium chloride. In February the Lanigan Division returned to a full four shift operation but the Cory and Allan Divisions remained on a 3 shift schedule for the whole year.

In November an anomaly was encountered in the Rocanville mine resulting in a heavy brine inflow. Because of the serious nature of this occurrence, production was suspended in mid-December in order that all energies could be concentrated on controlling the brine leak.

Despite the Rocanville disruption, cost efficiencies and increased productivity were achieved in the combined operations.

Emphasis continued on occupational health and safety. A reduction of 20% in lost time accidents was achieved. The introduction of a Loss Control system was begun to enhance the safety programs and to deal with all problems which could result in losses to the operations.

Collective bargaining agreements were concluded with the unions for Cory Division hourly and supervisor locals and for the Allan Division.

PCS Mining employed 1774 persons at year end. This is an increase from 1983 due mainly to Lanigan Division moving to 4 shifts and to a higher production at the other divisions. Central office staff dropped 7%.

Allan Division
Production increased to 0.970 million tonnes from 0.76 million tonnes while maintaining a 3 shift operation. PCS Mining's share was 0.61 million tonnes with the remainder going to our co-tenant, Kidd Creek Potash Company. The division employed 421 people. Mining operations were concentrated on one side of the mine resulting in a more efficient feed to the mill.

A major facility to improve the cleaning of stack emissions was installed.

Cory Division
Efficiency continued to improve at this operation which produced 0.70 million tonnes on a 3 shift basis.

The statistical safety record was improved by almost 50%.

At year end changes were initiated in the organization to accommodate the startup of a new Sulphate of Potash Demonstration unit.

A major stack emission collection and cleaning system was completed. This is directed at the reduction of particle emission to the atmosphere.

357 persons were employed at year end.

Lanigan Division
With the addition of a fourth shift in February 1984 the division increased its output to 0.87 million tonnes. The operating complement was 383 persons plus 61 personnel working on the Phase II Expansion capital project, essentially in the underground development.

Underground crusher sizes ore before it is transported to the surface for mill processing.

Rocanville Division
On a four shift basis the division produced 1.36 million tonnes, up sharply from the 1983 three shift operation. Production did not reach the target figure because of the disruption caused by the brine inflow problem in the south mine operation late in the year.

At year end the inflow of brine had not been halted but was under control.

Rocanville continued its outstanding safety record with only one lost time accident for the year.

The personnel complement of 418 at year end was a slight increase over 1983 reflecting the higher production and shipping rates.

Esterhazy Division
During 1984, under a long term processing agreement, International Minerals & Chemical Corporation (Canada) Limited produced 0.97 million tonnes of KCl products from PCS Mining ore reserves.

There is a staff of three PCS Mining employees at Esterhazy to handle order processing, shipment and maintenance of product inventory.

Major Projects
Lanigan Division Phase II Expansion was approximately 85% complete at year end. Contractors continued installations in the mill complex and engaged approximately 200 persons. The loadout facility was put into operation at mid year and, along with the new 100,000 tonne product storage building, was turned over to the Lanigan Division.

The Rocanville Dry Stacking project, designed to reduce the amount of brine flowing to the tailings area, was in commissioning stage at year end.

Construction of the Cory Division Sulphate of Potash 30,000 tonne per year demonstration plant was on schedule for commissioning in early 1985.

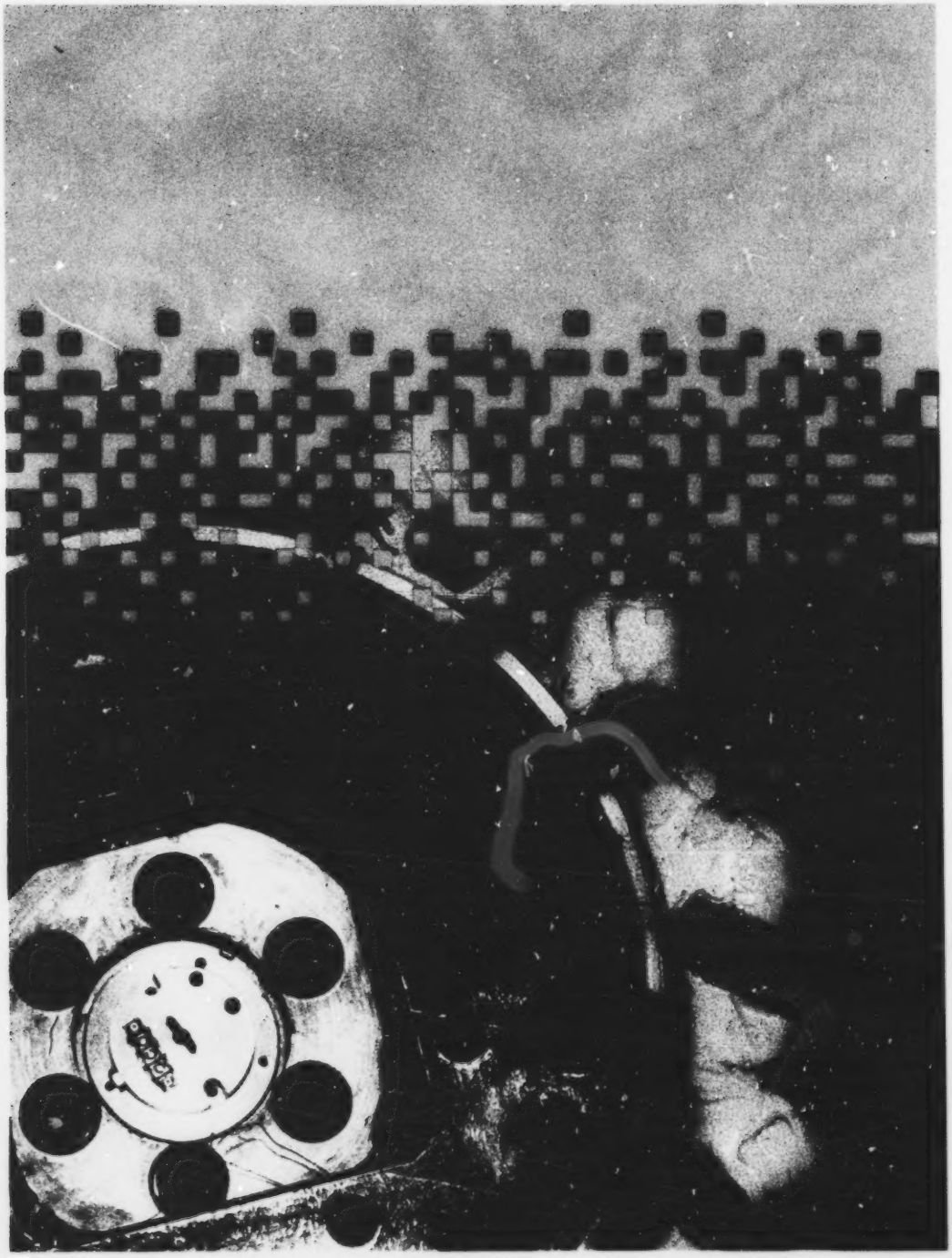
Research and Development
In the Process section research projects included brine evaporation, electrostatic separation, process computer control, compaction, product treatment and flotation studies.

Mining research was carried out on seismicity, ore analyzers, optimum mining extraction, underground transport and techniques to identify anomalies.

The earth sciences section dealt with bi-level mining conditions and new methods of stress measurement in potash.

Environmental research was conducted on tailings pile stability, development of a particulate monitor, groundwater impact, tailings reclamation and potash dust impact.

We continue to place a strong emphasis on long range R&D to enhance our operations with new technological developments.



Part of a cutting head from underground mining equipment.

PCS Sales

In 1984 potash markets gave rise to both optimism and disappointment.

North American Market

In North America the 1984 potash market remained flat. PCS Sales sold 2.2 million tonnes, equal to the 1983 tonnage. Following the 1983 restrictions in production of U.S. agricultural crops (PIK Program) dealers anticipated strong spring fertilizer movement. The optimism dissipated as wet weather postponed planting and fertilizer applications to the point where much of the spring demand failed to materialize. While this situation generated hope for a good fall season, persistent wet weather delayed harvesting. Weak agricultural commodity prices, in combination with serious credit problems faced by many farmers, caused sales to fall short of anticipated levels.

The depressed agricultural situation caused prices to weaken by mid summer. The softening trend continued throughout the fall accelerated by increasing inventory levels in the hands of producers throughout the Canadian potash industry. The price outlook for 1985 is one of considerable caution.

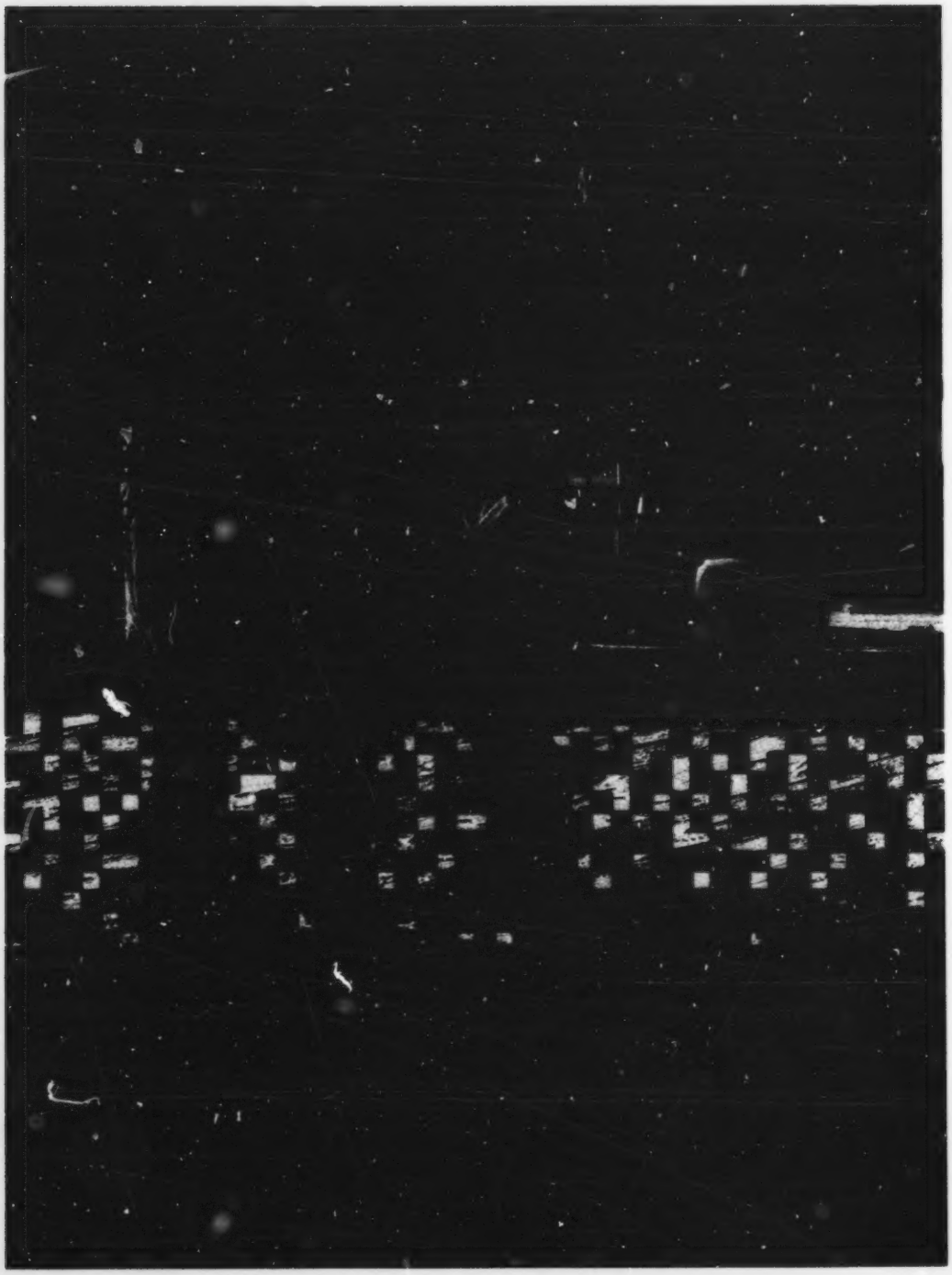
The outlook for U.S. agriculture over the next several years, based on farm policy indications by the U.S. Department of Agriculture, remains cloudy. As a result the conditions generally prevailing in the American fertilizer industry are uncertain at best. We expect to witness further restructuring in our industry. This restructuring can be expected to present considerable challenges, as well as opportunities, for PCS Sales.

Transportation and distribution from mine to market remain a key element in our marketing strategy. In a rapidly-changing market with intense pressure on prices, lowest possible transportation costs are of prime importance. Trainload movements now represent in excess of 80% of shipments with multi-modal systems (primarily rail/water via Great Lakes freighters or barges on the U.S. inland waterways) making up a significant part of this system. In 1984 rail rates remained relatively stable primarily due to existing government regulations in Canada.

PCS Sales' storage program in its market areas was expanded in three key locations. A water terminal at Côte Ste. Catherine, Quebec was opened early in 1984. A Potash Center was opened in St. Louis, Missouri in September and a terminal at Saginaw, Michigan completed in December. For PCS Sales warehouses such as these represent not only transportation efficiencies but also our long term commitment to the market place.

This commitment to the market is visible as well in two other areas. First, quality control by PCS Mining and throughout the distribution chain. Second, identifying new products to meet specific demands. Late in 1984 a new product for the liquid fertilizer market was introduced. This product was well-received by users and test results show that it is ideally suited to suspension operations.

In the field of agronomy PCS Sales' efforts dovetail with those of the Potash & Phosphate Institute in quantifying the effects of potash on plant growth and identifying programs designed to optimize high yields and assist farmers' survival under difficult economic conditions. The Agronomy Program also directly supports research projects through grants to universities in the U.S. and Canada.



Barry Mutlow, PCS Sales District Manager — Western Canada (centre) with customer Jim Crockett (right), and Potash Phosphate Institute representative Dr. Jim Beaton.

Offshore Market

Saskatchewan sales of potash offshore through Canpotex Limited set a record of 4.2 million tonnes and easily surpassed the previous high reached in 1980 when 3.6 million tonnes were sold. PCS Sales supplied 1.8 million tonnes to Canpotex in 1984. Various factors combined to generate these volumes. Favorable weather conditions existed throughout many of the offshore markets which are served from Canada. The slow but steady economic recovery worldwide has placed customers in a slightly better financial position. Increased marketing efforts by Canpotex, in combination with efficient logistical support systems, made possible the record sales.

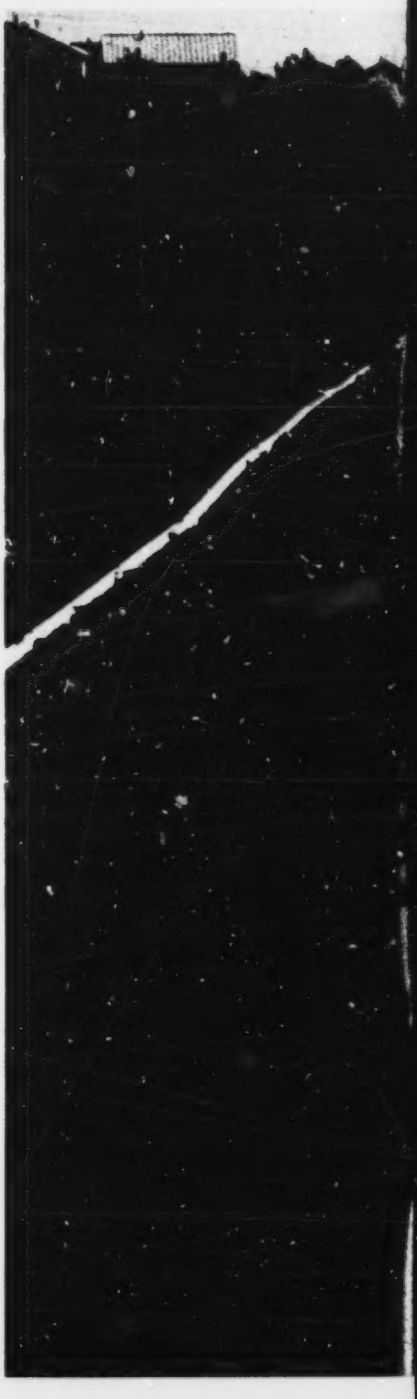
During 1984 market development work was initiated by Canpotex. The function of the Director of Market Development gives priority to the Chinese market. In conjunction with the Potash & Phosphate Institute several initiatives were undertaken including the joint sponsoring of an exhibit at Agro China 84 in Canton in November. In 1985 the market development function is expected to be expanded into the areas of logistical support and into other markets such as Indonesia, India and possibly Latin America.

The outlook for export sales in 1985 remains moderately optimistic; however, we do not expect shipments to attain the 1984 record volume.

Operations

At December 31, 1984, PCS Sales staff totalled 96, of whom 70 are located at the corporate head office in Saskatoon, including support staff in the area of distribution, order processing and accounting. The U.S. operations continue to be directed through our Chicago-based branch office. Wholly-owned warehouses at Fort Dodge, Iowa and Burns Harbor are operated and staffed by PCS Sales personnel.

In summary, while overall sales in 1984 improved over 1983 they fell short of original expectations. The weak demand in the North American market caused downward pressure on prices. The outlook for 1985 is for a modest increase in consumption in the North American market with the overall market being comparable with 1984.



Potash is a major soil nutrient for groundnut crops grown in China.

Five Year Review

All figures are expressed in thousands unless otherwise specified

	1984	1983	1982	1981	1980
Production — KCl Tonnes					
Allan Division	569	373	478	731	598
Cory Division	743	599	542	911	981
Esterhazy Division	965	718	715	905	974
Rocanville Division	1.358	887	822	992	1.110
Lanigan Division	867	529	309	832	816
Total PCS Mining	4.502	3.106	2.866	4.371	4.479
Total Canadian Producers	12.703*	9.719*	8.538	11.762	11.968
Sales — KCl Tonnes					
Canadian	236	147	119	133	76
United States	1.968	2.046	1.362	1.982	2.372
Offshore	1.849	1.399	1.168	1.765	1.959
Total PCS Sales	4.053	3.592	2.649	3.880	4.407
Total Canadian Producers	11.494*	10.795*	8.256	10.388	11.657

*Includes producers in New Brunswick

Financial ($'s)					
Gross Revenue	277.797	217.702	192.127	391.748	408.828
Provincial Taxes	17.692	10.822	15.020	70.770	89.540
Interest Expense	22.003	16.301	6.074	3.669	7.424
Net Income (Loss)	25.349	(18.007)	607	141.721	167.449
Dividends declared	12.000	62.000	50.000	50.000	50.000
Capital Expenditures (net)	113.931	111.638	140.454	194.756	97.026
Cash Flow from Operations	35.157	83.609	7.852	137.273	181.728
Working Capital	33.868	(41.248)	(26.854)	9.897	116.521
Long Term Obligations	455.464	372.980	221.787	88.025	108.400
Shareholder's Equity	678.022	602.673	682.680	732.073	640.352
Return on Equity — Pretax	6.72%	(0.08%)	2.21%	30.96%	44.18%
— After tax	3.96%	(2.80%)	0.09%	20.65%	28.79%
Other					
Employees at Year End (actual numbers)	1.917	1.826	2.191	2.267	1.944
Gross Payroll and Benefits ($)	67.071	59.780	64.660	62.620	47.210

1984 Quarterly Results	**Q1**	**Q2**	**Q3**	**Q4**
Sales — KCl Tonnes	1.051	940	1.187	875
Production — KCl Tonnes	1.246	1.225	887	1.144
Gross Revenue	$ 74.995	$ 70.079	$ 82.882	$ 49.841
Net Income (loss)	$ 9.823	$ 10.436	$ 8.675	$ (3.585)
Cash Flow from Operations	$ (9.388)	$ 9.2[illegible]2	$ 10.084	$ 25.239

Financial Reporting Responsibility

The accompanying financial statements of Potash Corporation of Saskatchewan have been prepared by management, which is responsible for their integrity, objectivity and reliability. They are prepared in accordance with generally accepted accounting principles as determined by the Canadian Institute of Chartered Accountants. The financial statements necessarily include some amounts that are based on the estimates and judgments of management with appropriate consideration to materiality.

The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

The Corporation's accounting system and related internal controls are designed to provide reasonable assurance that financial records are complete and accurate and that assets are safeguarded against loss from unauthorized use or disposition.

The Corporation's Board of Directors, acting through the Audit Committee comprised of directors who are not officers or employees of the Corporation, oversees management's responsibilities for the financial reporting and internal control systems.

The Director of Internal Audit, who has full and free access to the Audit Committee, conducts an extensive program of audits in coordination with the Corporation's external auditors.

Deloitte Haskins and Sells, the external auditors, have examined our financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they considered necessary in the circumstances in order to express the opinion in their report to the shareholders. They have full and free access to, and meet periodically with, the Audit Committee to discuss their audit and matters arising therefrom such as comments they may have on the fairness of financial reporting and the adequacy of internal controls.

Auditors' Report

To the Members of the
Legislative Assembly of
the Province of Saskatchewan

We have examined the consolidated statement of financial postion of Potash Corporation of Saskatchewan as at December 31, 1984 and the consolidated statements of income and retained earnings and of changes in cash resources for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1984 and the results of its operations and the changes in its cash resources for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells

Auditors

February 1, 1985

Saskatoon, Saskatchewan

Consolidated Statement of Financial Position

As at December 31

Assets	(Thousands) 1984	1983
Current Assets		
Short-term investments	$ —	$ 38.924
Accounts receivable	70.899	49.648
Due from the Province of Saskatchewan	—	3.939
Inventories (Note 2)	62.188	41.756
Deposits and prepayments	17.147	10.382
	150.234	144.649
Property, plant and equipment (Note 3)	1.059.195	989.667
Deferred charges and investment (Note 4)	40.423	27.234
	$1.249.852	$1.161.550
Liabilities		
Current Liabilities		
Short-term bank indebtedness	$ 26.266	$ 29.736
Accounts payable and accrued charges	69.238	63.140
Current portion of long-term debt	5.661	30.000
Current obligations under capital leases	3.201	1.021
Dividend payable	12.000	62.000
	116.366	185.897
Long-term debt (Note 5)	344.423	336.001
Obligations under capital leases (Note 6)	111.041	36.979
	571.830	558.877
Equity		
Province of Saskatchewan Investment (Note 7)	480.554	418.554
Retained earnings	197.468	184.119
	678.022	602.673
	$1.249.852	$1.161.550

Consolidated Statement of Income and Retained Earnings

For the years ended December 31

	(Thousands)	
Income	**1984**	**1983**
Sales	$272,353	$211,133
Interest and other	5,444	6,569
	277,797	217,702
Costs and expenses		
Operating costs other than those shown below	134,499	137,033
Depreciation and amortization	40,663	34,076
Research and development	3,220	2,917
Selling, distribution and administrative	34,371	34,560
Interest expense (Note 8)	22,003	16,301
	234,756	224,887
Net income (loss) before Provincial mining taxes	43,041	(7,185)
Provincial mining taxes (Note 9)	17,692	10,822
Net income (loss)	25,349	(18,007)
Retained earnings, beginning of year	184,119	264,126
	209,468	246,119
Dividend (Note 10)	12,000	62,000
Retained earnings, end of year	$197,468	$184,119

Consolidated Statement of Changes in Cash Resources

For the years ended December 31

	(Thousands)	
Operating Activities	**1984**	**1983**
Net Income (loss)	$ 25,349	$(18,007)
Items not requiring cash — depreciation and amortization	48,219	31,885
	73,568	13,878
(Increase) decrease in non-cash working capital	(38,411)	69,731
Net cash flow from operating activities	35,157	83,609
Financing Activities		
Long term obligations incurred	78,439	179,369
Long term obligations repaid	(31,589)	(25,000)
Provincial equity investment	62,000	—
Dividends paid	(62,000)	(50,000)
Net cash flow from financing activities	46,850	104,369
Investing Activities		
Additions to deferred charges	3,530	2,982
Additions to property, plant & equipment	115,268	112,647
Disposal of property, plant & equipment	(1,337)	(1,009)
Net cash flow from investing activities	117,461	114,620
Increase (decrease) in cash resources	(35,454)	73,358
Cash resources, beginning of year	9,188	(64,170)
Cash resources, end of year	$(26,266)	$ 9,188

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

The Corporation's accounting policies are in accordance with generally accepted accounting principles. The following policies are considered to be significant:

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and the wholly owned subsidiaries:

- Potash Corporation of Saskatchewan Sales Limited (PCS Sales)
  - PCS Sales (Iowa) Inc.
  - PCS Sales (Indiana) Inc.
- Potash Corporation of Saskatchewan Mining Limited (PCS Mining)
- Potash Corporation of Saskatchewan Transport Limited (PCS Transport)

PCS Transport has 64% interest in Canpotex Bulk Terminals Limited which is accounted for by the equity method.

Inventories

Inventories of product and raw ore are valued at the lower of average cost or net realizable value. Inventories of materials and supplies are valued at the lower of average cost or replacement cost.

Property, plant and equipment

Property, plant and equipment are carried at cost. Costs of additions, betterments and renewals are capitalized.

Maintenance and repair expenditures which do not improve or extend productive life are expensed as incurred. Interest associated with major capital projects is capitalized during the construction period at the Corporation's average cost of long term debt, and is included in the total cost of the project.

Depreciation and amortization

Depreciation and amortization are provided on a basis and at rates calculated to amortize the cost of the property, plant and equipment over their estimated useful lives, as set out below:

	Depreciation or Amortization Basis	Approximate Rate
Head Office		
Furniture and equipment	Straight-line	10%
Automotive equipment	Straight-line	20%
Leasehold improvements	Straight-line	Term of lease
Mines		
All mine assets	Units of production	
Offsite Storage Facilities		
Buildings	Straight-line	4%
Equipment	Straight-line	8%
Roads and sites	Straight-line	4%

Research and development costs

Research costs are charged to expense as incurred.

Development costs are capitalized until a project is determined not to be technically feasible and no future benefit to the Corporation exists, at which time the costs are expensed.

Development costs which are capitalized are included in Deferred Charges and will be amortized over the estimated useful life of the project to which they relate.

Foreign exchange translation

Sales revenues are translated to Canadian dollars at the average exchange rate for each month or the applicable forward exchange contract rate. Other operating transactions are translated to Canadian dollars at the average exchange rate for each month.

Current assets and liabilities are translated on the basis of year-end exchange rates.

Non-current assets are translated at the exchange rate prevailing at the time of the transaction.

Non-current liabilities are translated on the basis of year-end exchange rates. Unrealized exchange gains and losses relating to translation are deferred and amortized over the remaining life of the liability.

Leases

Leases entered into are classified as either capital or operating leases. Leases that transfer substantially all of the benefits and risks of ownership of property to the Corporation are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with its related long term obligation to reflect the purchase and financing. Equipment acquired under capital leases is being depreciated on the same basis as described above. Gains or losses resulting from sale-leaseback transactions are deducted from the cost of equipment under capital lease and amortized on the same basis as the asset. Rental payments under operating leases are expensed as incurred.

2. Inventories

	(thousands) 1984	1983
Product inventory	$ 38.117	$ 18.781
Raw ore inventory	3.223	3.223
Materials and supplies inventory	20.848	19.752
	$ 62.188	$ 41.756

3. Property, Plant and Equipment

	(thousands) 1984	1983
Land	$ 17.325	$ 17.142
Buildings and improvements	156.425	130.504
Machinery and equipment	606.654	582.882
Plant under construction	294.799	313.080
Deferred exploration and development costs	69.917	69.907
Equipment under capital lease	107.560	29.517
	1.252.680	1.143.032
Less: Accumulated depreciation and amortization	193.485	153.365
	$1.059.195	$ 989.667

4. Deferred Charges and Investment

Deferred charges, net	(thousands) 1984	1983
Bond issue costs	$ 4.561	$ 4.959
Systems development and other	1.095	712
Preproduction costs	2.017	2.826
Bredenbury development	15.045	15.198
Rocanville brine leak costs	2.719	—
	25.437	23.695
Unrealized foreign exchange losses	14.021	2.574
	39.458	26.269
Investment, at equity	965	965
	$40.423	$27.234

5. Long-Term Debt

	(thousands) 1984	1983
Province of Saskatchewan		
— Matures on January 28, 1984 with interest at 8 3/8% per annum, payable semi-annually	$ —	$ 25.000
— Matures on March 15, 1989 with interest at 16% per annum, payable annually. ($75.000 U.S.)	99.105	93.330
— Matures on August 15, 1992 with interest at 15% per annum, payable annually. ($50.000 U.S.)	66.070	62.220
— Matures on March 15, 1990 with interest at 10.75% per annum, payable semi-annually ($50.000 U.S.)	66.070	62.220
— Matures December 21, 1988 with interest at 10.75% per annum, payable semi-annually	80.000	80.000
Saskatchewan Heritage Fund		
— Matures in equal annual installments on June 30, 1985 to 1987 inclusive with interest at 9.3% per annum, payable semi-annually	15.000	20.000
— Matures $5.000 on December 31, 1988 and $8.400 on December 31, 1989 with interest at 13% per annum, payable semi-annually	13.400	13.400
Webster County, Iowa		
— Matures December 1, 1996 with interest at 13% per annum, payable semi-annually. ($3.900 U.S.)	5.153	4.853
City of Portage, Indiana		
— Matures in eight equal annual installments on March 1, 1985 to 1992 inclusive with interest at 12.25% per annum, payable quarterly secured by assets of PCS Sales (Indiana), Inc. ($4.000 U.S.)	5.286	4.978
	350.084	366.001
Less amounts due within one year	5.661	30.000
	$344.423	$336.001

Principal payments due on long-term debt for the next five years are as follows:

(thousands)			
1985 — $ 5.661	1986 — $ 5.661	1988 — $ 85.661	
	1987 — $ 5.661	1989 — $108.166	

6. Lease Commitments

The Corporation has long term lease agreements, the longest of which expires in 2005. Future minimum lease payments under these capital and operating leases will be approximately as follows:

	(thousands)	
	Operating	**Capital**
Years ending December 31		
1985	$ 14.277	$ 16.836
1986	10.600	16.807
1987	9.533	16.807
1988	8.005	16.807
1989	6.811	16.807
Subsequent years	20.588	159.832
		243.896
Less — amount representing interest		129.654
Present value of minimum capital lease payments		114.242
Current portion		3.201
Long-term portion		$111.041

7. Province of Saskatchewan Investment

	1984	**1983**
Saskatchewan Heritage Fund	$ 418.554	$ 418.554
Crown Investments Corporation of Saskatchewan	62.000	—
	$480.554	$418.554

8. Interest Expense

	(thousands)	
	1984	**1983**
Interest on		
— Long-term debt	$46.202	$36.914
— Short-term debt	2.889	8.678
— Obligations under capital leases	8.859	189
	57.950	45.781
Less capitalized interest	35.947	29.480
	$22.003	$16.301

9. Income Taxes

By virtue of the fact that the Corporation is wholly owned by the Province of Saskatchewan, neither it nor its wholly owned subsidiaries are subject to Federal or Provincial income taxes in Canada. Certain income and assets of its subsidiaries are subject to Federal and State taxes in the United States.

10. Dividend

During the year, a decision was made that the Corporation transfer a portion of retained earnings to the Crown Investments Corporation of Saskatchewan. This transfer is recorded as payable at December 31, 1984 and is referred to as a dividend.

11. Contractual Obligations and Commitments

The Corporation is expanding its Lanigan division at an estimated cost, including capitalized interest, of $529,000,000 of which approximately $419,000,000 has been expended to date. The Corporation previously announced its intention to develop a new mine near Bredenbury, subject to environmental approvals and on-going economic evaluations. No significant development is anticipated on the Bredenbury project in 1985.

PCS Sales is a participant in Canpotex Limited, an offshore marketing company. Should any operating losses be incurred by Canpotex Limited, they will be proportionately shared by its participants. PCS Sales is also a guarantor of the performance by Canpotex Limited for certain railcar leases.

PCS Sales and PCS Mining have guaranteed a mortgage loan not to exceed $4,300,000 for warehousing facilities in Danville, Illinois.

12. Directors and Officers

The aggregate 1984 remuneration to directors and senior officers amounted to $1,143,000 (1983 — $1,123,000).

13. Related Party Transactions

Included in these consolidated financial statements are expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the Corporation is related. Account balances resulting from these transactions are included in the Consolidated Statement of Financial Position and are settled on normal trade terms.

Other amounts due to or from related parties and the terms of settlement are described separately in the consolidated financial statements and the notes thereto.

14. Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation.

Board of Directors

(at March 31, 1985)

♦ **Cliff Wright, Saskatoon**
Chairman of the Board
Mayor, City of Saskatoon

♦ **Honourable Paul Schoenhals**
Minister of Energy, Mines & Resources
Province of Saskatchewan
and Minister-in-Charge of PCS

Josie Black, Regina
Farmer

* **Al Brissette, Delisle**
Retired

♦+ **William M. Elliott, Q.C., Regina**
Partner
Law Office, McPherson, Leslie & Tyerman

Donald Flamme, Carievale
Farmer

* **Peter Golf, Saskatoon**
Peter Golf Enterprises

\+ **Dallas Howe, Saskatoon**
President, BDM Systems Ltd.

* **Brent Logan, Yorkton**
President, Logan Chev-Olds (1981) Ltd.

Dr. Andy Schmitz, California
Professor, University of California

♦ **Earl Silcox, Carlyle**
Farmer/Rancher

\+ **J. Gordon Wicijowski, F.C.A., Regina**
Managing Partner, Clarkson Gordon

* Member of Audit Committee
\+ Member of Compensation Committee
♦ Member of Executive Committee

Management

(at March 31, 1985)

Potash Corporation of Saskatchewan

Steve W. Harapiak
President & Chief Executive Officer

William F. Avery
Vice President, Finance & Administration

Keith E. Barton
Vice President, General Counsel and Secretary

Douglas A. Karvonen
Vice President, Corporate Development

Neil A. MacPhedran
Director, Purchasing and Vendor Development

Glen E. Shields
Director of Internal Audit

Potash Corporation of Saskatchewan Mining Limited

Donald G. Matheson
President

James J. Bubnick
Vice President, Industrial Relations and Personnel

Donald J. Irvine
Vice President, Engineering

James F. Sadler
Vice President, Operations

Graeme Strathdee
Director, Research & Development

Garth Moore
General Manager, Rocanville Division

Rick Lacroix
General Manager, Cory Division

Floyd Pellan
General Manager, Allan Division

Rod McCallum
General Manager, Lanigan Division

Potash Corporation of Saskatchewan Sales Limited

Rolf H. Holzkaemper
President

Douglas E. Logsdail
Executive Vice President

N. Gene Jones
Vice President Sales

Alec S. Kocur
Vice President Finance & Administration

Sid S. Blair
Director of Sales (Canadian & National Accounts)

Jim M. DeLong
Director of Sales (Industrial Products & Product Development)

Jack O. Ellis
Director of Sales (Co-op Accounts & Inventory Management)

Barry R. Jarrett
Director of Sales U.S. Branch

Orin W. Grovum
Director of Finance and Administration

William G. Irvine
Director of Transportation

Bruce W. Karras
Director of Market Research and Planning

Locations

The Head Offices for the Potash Corporation of Saskatchewan, PCS Sales and PCS Mining are located at:

Saskatoon Square
410 - 22nd Street East
Saskatoon, Saskatchewan
S7K 5T7
Phone: (306) 664-5530
Watts: (800) 667-3930
Telex: 074-2699

PCS Sales Chicago Office:

Sperry-Univac Plaza
Suite #260 -
8600 West Bryn Mawr
Chicago, Illinois
60631
Phone: (312) 399-0140
Watts: (800) 241-6908
TWX: (910) 221-2912

PCS Mining Divisions:

PCS Mining Cory Division
P.O. Box 1320
Saskatoon, Saskatchewan
S7K 2N8
Phone: (306) 382-0525
Telex: 074-2682

PCS Mining Rocanville Division
Rocanville, Saskatchewan
S0A 3L0
Phone: (306) 645-2870
Telex: 971-2342

PCS Mining Esterhazy Division
P.O. Box 1060
Esterhazy, Saskatchewan
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Phone: 745-6601
Telex: 075-87856

PCS Mining Lanigan Division
P.O. Box 3100
Lanigan, Saskatchewan
S0K 2N0
Phone: (306) 365-2030
Telex: 074-2318

PCS Mining Allan Division
Allan, Saskatchewan
S0K 0C0
Phone: (306) 257-3312
Telex: 074-2634